THE ART OF WISE INVESTING

The
Art of Wise Investing

THE ART OF WISE INVESTING

A SERIES OF SHORT ARTICLES ON INVESTMENT VALUES, POINTING OUT THE ESSENTIAL CHARACTERISTICS OF SAFE INVESTMENT SECURITIES, WITH A REVIEW OF THE FINANCIAL PITFALLS INTO WHICH SUPERFICIAL EXAMINATION INEVITABLY LEADS

PUBLISHED BY

MOODY PUBLISHING CO.

35 NASSAU STREET, NEW YORK

PREFACE

While the popular impression is probably the reverse, yet it is an undeniable fact that a far vaster sum of money is annually lost in this country through unwise investment, than through pure speculation. While many fortunes are constantly jeopardized and dissipated through what is known as speculation in stocks, bonds, grain-futures and like ventures, yet the many sums, large and small, which annually leave the pockets of actual investors are far greater in amount. Indeed, I would almost say that the losses through "unwise investment" are easily tenfold the losses occasioned through mere speculation on the exchanges.

And furthermore, the losses incurred through unwise investing are far more important to the community at large; for while speculative losses are in a sense anticipated, or at least partly anticipated, the losses through mistaken investments are usually unexpected and unprepared for. Speculative losses often represent the loss of money easily gained, either through former speculation or from other sources, but the average loss of the investing public is generally a loss of hard-earned or industriously accumulated savings; and therefore such losses are felt far more deeply by the community.

The art of wise investing involves two primary motives. The first is to place one's principal where it will be entirely secure,

and the second, to gain as large a percentage of return as possible without in the least disturbing or lessening the security of the principal. The moment the status of the principal is changed for the purpose of enhancing the rate of return, the transaction ceases to be a pure investment and becomes more or less of a speculation. Thus, analyzed in its simplest form, we may put it down as axiomatic that only those are legitimate investments where the primary motive is the safe securing of one's principal and the rate of return thereon is looked upon as secondary. A speculation, on the other hand, is where the desire for large profit is so strong that the safety of the principal becomes in effect a minor consideration. That is to say, the person in-

vesting or speculating may regard his principal as secure but is willing to place it at considerable risk in order to increase his profit. The securing of the principal, therefore, is the first and chief matter to be considered in investing money.

Looked upon in this light it will be seen that the matter of investing money wisely is a most important as well as a most difficult art, and therefore well worthy of careful examination. The ideas and opinions expressed in the following pages are the concrete result of many years' experience and study of Wall Street conditions and methods; and while it may appear to some that the writer is too conservative in his attitude towards investing methods in general, yet careful thought should convince

every reader that it is the part of safety and prudence to be securely on the side of conservatism in Wall Street investing, rather than the reverse.

In the work of compilation the valuable co-operation of Mr. John F. Hume, author of a book, now out of print, entitled "The Art of Investing," is hereby publicly acknowledged.

CONTENTS

The Art of Wise Investing

I.

Unless he has had much previous experience, the prospective investor who wishes to put his money to work through Wall Street channels, will be confronted at the very outset with the question of "safety." Knowing only more or less definitely, that he ought not expect a return of more than 4 per cent. to 5 per cent. if he expects to place his money securely, he naturally seeks more expert advice from a banker, broker or other dealer in investment securities. And he is wise in doing

this, provided he exercises good judgment in the selection. But brokers and dealers in investment securities are, of course, not infallible; their judgment is sometimes biased, and they may, for one reason or other, give unsound advice. Hence it is all the more necessary that the investor should inform himself regarding the merits of a given security, as well as train himself in the art of analyzing investments in general.

The truth is that while there are certain fixed rules for proper guidance, yet every bond must be judged by itself in order to be analyzed aright. For instance, a man may be advised to invest only in "first mortgages," and by putting this limitation upon his field of investment, thereby insure its safety. But such advice, applied broadly,

is essentially unsound. A fourth, fifth or tenth mortgage on some properties may be far more secure than a first mortgage on others. For instance, the Reading Company 4s, selling at 100, are a much safer security than were the first mortgage bonds of the Centralia & Chester R. R., and yet the former are an 8th mortgage on parts of the mainline of the Reading system and are a first mortgage on no part of the property. Yet they are well secured, while the other bond defaulted early in its life and its holders were obliged to sacrifice a large part of their principal in the re-organization which followed the default. Thus it will be seen that to advise the investor merely to confine his investments to first mortgages may be most misleading. And yet many of the

victims of such results never seem to grow any wiser.

Another unsafe method of judging the safety of bonds, is to assume that because they are secured on part of a large railroad system and "underlie" one or more issues of secondary bonds, that their security is absolutely assured. This, like the former argument, contains some vital flaws, and while it holds good in the majority of instances, if followed in others, brings very disastrous results. Many large and important railroad corporations absorb tributary or competing lines under one plan or another, but they do not always guarantee the securities of these lines. Bond issues are "assumed," according to the statements circulated, but unless they have

been *specifically guaranteed* by the acquiring corporation, it does not necessarily follow that the credit of the latter is back of the security at all. The acquired line may turn out an unprofitable and losing investment, with the result that the larger or controlling line will want to either unload its burden or scale down the obligations of the branch to a sum approximately less than the latter is currently earning. There are many methods whereby this can be done, as has been proven many times. It is vital, therefore, that the investor should base his entire judgment of value on the property itself, regardless of the parent company, unless indeed the latter has *absolutely* assumed and guaranteed the principal and interest of the bond.

A third error which is very common is to assume that because a bond is listed on one or more of the stock exchanges, it is therefore safer or in better standing than otherwise. Such a notion is entirely unsound, as there are far more bonds of the highest grade and of the best security traded in on the various markets outside of the exchanges themselves. The chief advantage of a security being listed on an exchange is that it thereby secures a fixed quotation, but the fact of its being listed does not bear upon its safety in any way. While it is true that many of the best secured bonds and stocks are listed on the exchanges, it is also true that many of the least secure are listed as well.

In contemplating an investment in a

given security, each case should be judged on its own merits. In the case of a railroad bond, it is not the question of whether the issue is a first mortgage or a blanket mortgage, but whether the value of the property on which it is secured is sufficiently in excess of the amount of the mortgage, and whether the income from the property is sufficiently in excess of the amount required for meeting the interest on the bonds and all prior obligations. And in defining value, we mean, of course, permanent earning power, for it is the permanent or growing earning power that makes the value. For instance, the New York, New Haven & Hartford R. R. lines, between New York and Boston, are bonded and capitalized for an amount far in excess of the cost of re-

placing the actual movable property of the company. But there is another asset besides its rails and equipment that makes railroad property valuable. This is its location, its exclusive rights of way and terminal sites or privileges. And it is from these latter that flow its chief earning power. The 500 odd miles of railroad on the New Jersey Central system may not represent much more movable property than a like mileage of railroad in Mexico, and they may not have originally cost much more to build. But the vast difference in value will be found in the location, in the value of the land, a value which has been created by the influx or growth of population. This is such an important factor that the value of a property is at once effected if

a tendency towards more rapid growth appears, while it at once falls in cases where the contrary tendency develops.*

The right of way or site value is therefore the first feature to bear in mind in analyzing the permanent earning power or value. And it must be borne in mind that it is the *permanent, or average,* earning power rather than the possible *temporary income* that is to be considered. By permanency we mean a matter of generations and not of years. Most railroad bonds run

*(This effect of population on land values and on all sub-values—every value being subsidiary to land value—is brought out most clearly and scientifically in a small book recently issued by Richard M. Hurd, President of the Lawyer's Mortgage Co., New York, entitled "Principles of City Land Values.")

from 50 to 150 years and the investor must naturally be assured that there will not likely be a real depreciation in the property, if properly maintained, in the generations to come. His first thought then must be to ascertain if the influx of population around and along the lines of the property is likely to continue indefinitely, and, at the same time, if the value of this and the surrounding land is such that the creation of a rival right of way is out of the question. In other words, his fundamental asset (the site) must be practically exclusive, for it is the exclusiveness that gives it most of its value.

Having assured himself as to this, his next care will be to see that the probable average earning capacity of the property in the poorest times is well in excess (50 per

cent. at least) of all requirements for interest on this mortgage and all prior charges, as well as for full maintenance of the property in every respect. The investigation of this phase of the enterprise is frequently a difficult one, as reports and income accounts are so often misleading in arrangement and make-up that the careless investor is sometimes deceived by an elaborate display of figures which may mean very little.*

*(Every investor would do well to make himself familiar with a little book entitled "The Anatomy of a Railroad Report," by Thos. F. Woodlock, editor of the *Wall Street Journal.* It is published in the well-known Nelson's *Wall Street Library.* This little book, written so that the uninitiated as well as the expert can comprehend, goes thoroughly into the details of railroad accounts and reports.)

But even though the investor has thoroughly informed himself regarding the above characteristics, there are many other uncertainties which are to be avoided or overcome. However, if he has been careful to see that the conditions described above are all present in a given investment, his chances of losing his money will be reduced to a minimum. If on the other hand, he neglects these precautions, and adopts other rules for analyzing the security or puts his trust in the "say-so" of this or that authority, then he stands in great danger of sooner or later coming to grief, as will be shown in the following pages.

Many years ago the careless legislation of many of the States permitted corporations to decide for themselves the amounts of

obligations they might put out, and therefore it was no wonder that the privilege was abused, and the making of shares and bonds, the latter represented to be amply secured by mortgage liens, were carried to criminal excess. One illustration will suffice:

"The old Arkansas Central Railway Company, located in the State of Arkansas, built only forty-eight miles of its projected road. The road was of narrow guage, with very light iron, and in every way cheaply constructed. It cost less than ten thousand dollars per mile, including equipment. As has been the case with most of companies building railways in new countries, help in its behalf was asked from the communities to be benefitted, and their bonds, amounting to nearly half a million

dollars, were given it by the counties, cities, etc. Under a statute providing for aid to railroads when their beds could be utilized for levee purposes, the company got $160,-000 of State bonds. Under another statute it got, as a loan from the State, the latter's bonds to the amount of $1,350,000, which were to be a first lien upon the property. After such abundant assistance, it would have appeared hardly necessary for the company to put out obligations of its own. However, it proceeded to market and issue its own debentures to the amount of $2,500,000, of which $1,200,000 purported to be secured by first mortgage, a representation that, for reasons already stated, was not correct. In addition a considerable amount of stock certificates was issued.

Altogether, nearly $5,000,000 of paper was put out and negotiated on the basis of forty-eight miles of narrow-guage road. But this proved to be insufficient. The road, for non-payment of interest on its bonds, soon passed into the hands of a receiver, who found it in such an unfinished state, that, with the court's permission, he issued a considerable amount of his own certificates to provide for necessary repairs and betterments. Then the road, the product of such an outlay, was sold at public auction and brought the magnificent sum of $40,000, which was paid, not in cash, but in receiver's certificates that had been purchased at a great discount from their face!"

Twenty or thirty years ago, nearly all first-class securities, outside of "govern-

ments" and "municipals," were steam railroad bonds and stocks. But we now have stocks and bonds upon the market representing nearly all conceivable kinds of property, industrial and manufacturing companies, telegraphs, telephones, gas, electric light and traction companies, water-works, bridges, oil and gas wells, factories and mills of every description, patent rights of all sorts, steamboat lines, apartment houses, and even cemeteries. And not only are properties of many kinds used to issue bonds on, but many kinds of bonds are often issued upon the same properties. Thus we find among our railroads and other corporations not only first, second and third mortgages, but income bonds, debentures, convertible bonds, con-

solidated bonds, redemption bonds, renewal bonds, terminal bonds, divisional bonds, sinking fund bonds, "blanket-mortgage" bonds, collateral trust bonds, equipment bonds, and bonds *ad nauseam* until they lap and overlap in seemingly endless complication. Not that merely, but one issue of bonds is sometimes made the basis of other issues. Indeed, one of the money-making devices of the time is the formation of companies that issue their bonds on the security of the other people's bonds that they have purchased, either yielding a higher rate of interest or obtained at lower prices than they expect to realize for their issues. There seems, in fact, to be no limit to the production of securities that are spread before the capitalists. There

never was a time when it was so easy to invest money and to lose it. Of the securities that are offered with first rate recommendations, it is probable that about one-third are actually good, one-third have some value, and one-third are practically worthless. Hence the very natural inference that whatever art there may be in the matter of investing is to be exercised chiefly in the avoidance of unworthy offerings, and it is to that point that a profitable discussion of the subject must be mainly directed.

For the conditions of things described, the laws of some of our States in giving corporations almost limitless power to issue negotiable paper, as well as in permitting all sorts of companies to incorporate them-

selves, are, undoubtedly, very largely to blame. Our banks are closely watched and very properly restrained from taking people's money on false pretenses; but how much better is it for industrial and other corporations to take it by means of legalized fictitious evidences of value? Banks are by no means the only corporate institutions that need watching. One of the reforms that would seem to be very much demanded is legislation prohibitory of the creation by companies existing by authority of law, of stocks and securities not representing cash actually paid into their treasuries, or proprietary interests whose values are to be determined by disinterested parties. Pennsylvania has incorporated substantially such a provision in her constitution. Her ex-

ample should be followed by all other commonwealths.

But the security behind or beneath the debenture or other paper obligatory is not the only thing to be looked into by the investor. Even the form of the document may be important. A case in point, inasmuch as it shows how the preparation of an undertaking for the payment of money may change its apparent value, would seem in this connection to be appropriately quoted. Some years ago certain townships in the State of Missouri were desirous of aiding the construction of railroads with their credit. The State Legislature, to that end, passed an act authorizing the issue and sale of bonds obligatory upon them; but it was stipulated—a verv singular provision—that,

instead of being put out by the townships, the bonds should be executed by the officials of the counties in which they were located. Accordingly, debentures aggregating several million dollars were thus prepared and disposed of. The bonds bore the seals of the counties and the signatures of their officials. On the back and at the top of each signature in large letters were the words "county bond." The instrument began with the recital, in the usual form, that it was issued by the county, but farther on, and in the smallest type employed, came the statement that it was executed for and in behalf of a certain township, which alone was to be responsible for its payment. These bonds were extensively advertised as "county bonds," and probably in most in-

stances, certainly in many, were sold as such, and it was not until purchasers parted with their money, that they discovered that, instead of getting the papers of well known and wealthy counties, they had secured only the obligation of townships they had never heard of before. It was then manifest enough that they had been made the victims of a piece of very sharp and very shabby practice. In very many cases the buyers of bonds and other securities learn, when it is too late, that their purchases, owing to some obscure and apparently innocent passage that had been overlooked or disregarded, are very different from what they thought they were getting. How often have careless investors that supposed that they were purchasing undertakings that

would be good for long terms of years, and probably paid premiums to obtain them, ascertained at the end of comparatively short intervals that they were forced to accept in payment the amounts nominated in the bonds in consequence of unnoticed clauses giving their makers power to redeem their option? The lesson of such cases is obvious enough. It is that no one should buy a moneyed undertaking without having first carefully read it. This may seem like an unnecessary warning; but in truth it is a most material one. Thousands and thousands of dollars have been lost by the neglect of this simple precaution. "I didn't read the paper" is the explanation that has again and again been offered when time has disclosed a different investment

from the one intended to be paid for. The fact is that comparatively few unprofessional bond and stock purchasers ever carefully examine the instruments they acquire. They look at the headings, those parts that are in big letters, and take the rest for granted. It is a most unwise practice. Unless you are previously familiar with the document in all its parts, don't fail to read it before you buy. Read it all, the little type as well as the big type, the indorsements, the coupons, and all. Don't take somebody's else word for it. Examine the seal, the signatures, and even the embellishments. Something may be disclosed that will change your mind and save your money.

But if there are tricks in the making of

securities, even more are to be apprehended in the selling of them, and should be guarded against with corresponding diligence. It is a notable fact that no poor securities are ever offered. They are always good so long as they are on the market. It is only after they have been purchased that they prove to be worthless. Interest has never known to fail on bonds that are seeking investors, although default has sometimes followed very closely on the sale of the last obligations. Indeed, it is no secret that interest is often paid out of the proceeds of the bonds, particularly railroad issues, the purchasers in this way getting a portion of their own money back while the process of marketing them is going forward, although such a thing has seldom

been known to happen when the entire issue was disposed of. The advertisements of the bond-sellers are sometimes marvelous productions. No such securities as they have to offer have ever been on the market before. They are absolutely safe; they pay extra rates of interest, etc., etc. The wonder is that with so much capital seeking investment, it is found necessary to advertise such perfections at all. In such cases it is hardly necessary to say that the only safe rule for investors is to find other uses for their money, however strong the temptation may be.

A common expedient of bond-makers and bond-merchants is to fortify their issues with the favorable opinions of eminent lawyers. This is particularly the case when

the obligations of municipalities or of companies that are dependent upon contracts with municipalities are offered, municipalities having shown an unpleasant disposition to go back on their undertakings. No exceptions can be taken to the practice referred to, as counsel learned in the law should in such cases always be consulted; but the writer has to say that he has never yet known a security so poor that a lawyer's opinion could not be had to back it. Such testimonials should be taken for what they are worth, and no more.

When so many seductive baits are offered; so many nets and traps, contrived and constructed by clever brains and cunning fingers are spread for the capture of those having money, is it surprising that the care-

less and credulous are victimized, and even that the sagacious and prudent should sometime be taken in? Nevertheless, for the losses they have sustained, investors as a rule, have themselves chiefly to blame. The mistakes made, in nine cases out of ten, have been the purchase of cheap securities. The hope of realizing a little more than ordinary interest, by buying paper at a discount, has proved to be the rock on which unnumbered capitalists have split. In addition to their money's worth, they have endeavored to get *something* for nothing, with the result most generally of getting *nothing* for something. It is remarkable how blind are people, ordinarily sagacious enough to make money, to the effect that property can not pay a revenue beyond its

producing capacity. For instance, how can a trolley company, whose line is wholly or mainly built from the proceeds of mortgage bonds, sell them at a heavy discount, besides allowing large commissions for the selling, and then pay both this interest and dividends on stocks? Or how can a poor agriculturist, occupying a half-improved farm out on the frontier, with a family to support and grain selling barely above the cost of production, pay ten or twelve per cent. upon the capital with which he does business?

By what rule or rules is the investor to govern himself. No formula can guarantee him absolute safety. One thing, however, he can properly count upon, viz., that he must expect to pay a fair price for a good

security—one that will return him no more than a moderate interest on his money, and if he wants to speculate and willing to take risks, that is another thing. He can then look for bargains. As a general proposition it can be asserted that the day for high prices for money, as the day for large profits in trade or manufacturing, or indeed, in any regularly recognized business with us, has gone by. The capitalist who sends his money into a new section, or puts it into a new mechanical process or a new constructive enterprise, may or may not make a hit, but for the ordinary and conservative operator, the conditions of the commercial and financial world gives warning that only small profits are to be looked for. The first and main thing to be studied is safety. And

yet there is such a thing as going too far in the matter of prudence. The investor may pay too dearly for safety. There are securities which, compared with others that are to be had, sell at prices much above their real value. The reason is that everybody knows them to be good, and investors who don't want to take the trouble to investigate, or are afraid to trust both their own judgments and the counsels of their friends, are willing to pay extra prices for them. But there are plenty of others that may be had at lower figures, which are just as good. There is no reason in the world why the investor should safely invest at a rate that will generally yield him from 4 per cent. to 5 per cent. interest, and be as secure as any property can be under human supervision.

As heretofore stated, with the creation of new enterprises and properties, and the development of old ones, new securities are constantly appearing in this country and a fair share of them ought to be good. Indeed, our securities ought to be the best in the world. The sure and rapid growth of our resources supplies a reliable support as long as fair intelligence and common honesty attend their production. The only thing is to choose with discretion, so many doubtful and even fraudulent issues appearing at the same time; but no more judgment is really demanded than in purchasing lands or cattle.

Two common and often fatal mistakes should be avoided. One is in relying solely upon the advise of another. No one com-

petent to form an opinion for himself should put his pecuniary interests unreservedly in the keeping of another. Such absolute confidence invites betrayal. By far the greater number of losses to investors has been in securities purchased exclusively on the recommendation of interested outside parties. While it is well to get the opinion of a reputable broker, the purchaser should investigate and decide for himself. The other mistake is to uniformly give preference to listed securities. As pointed out at the beginning of this article, many persons seem to think that stocks and bonds must have a value if they are quoted at some stock exchange, forgetting how many fancies have been ballooned until they have burst at such places. On the contrary such

a position is likely to expose them to manipulation for purely speculative purposes. Stock-exchange quotations are often unsafe guides to buyers. They represent not merely the value of the property but also the pitch of speculation at the time. When securities are converted into foot-balls for gamblers to play with, they are pretty certain to be too high or too low. The main advantage they can have is a readier marketability in case of an urgent need to sell; but it is at the times when such need is likely to exist that they are pretty certain to be at the lower point. No speculative help can long take the place of real value. Securities, in the long run, must stand upon their merits, and purchasers have merely

to follow business principles as taught by the canons of common sense.

In seeking investments, and especially long time investments, there are several things to be taken into account. There is not only the question of the kind of security to purchase, but the question of the time of purchase. There are opportunities to be looked for as well as pitfalls to be shunned. It is during periods and seasons of depression, when securities are forced upon the market, often to be sacrificed—and they are certain to come if waited for long enough—that the shrewd investor finds his richest harvest. That, however, can not be said of the ordinary investor. He usually buys when securities are up and confidence is unimpaired, and becoming

frightened as the market values go down, sells when they are at the bottom, and holds his money to reinvest in something else no better, and probably not as good, when the tide has turned. As a rule, the best time to invest is when others are unloading. In money matters it is never safe to follow "the crowd." Nor is it safe, (which is little more than the expression of the same idea in another form), to purchase a security when it is on the "boom." A peculiarity of our money market, conservative as it is popularly supposed to be, is that it is constantly changing its favorites. Its offerings come in waves. Its dealings at one time may be chiefly in railways, at another in municipal obligations, and at another the excitement may run to mining shares or

mortgages on ranches and real estate. For the time all professional brokers and bond and share sellers urge their customers to adopt the popular issue, of which, as the result of the increased demand, there is almost certain to be excessive, if not fraudulent production. To yield to the pressure of such a time is always risky. Old and tried securities, like old friends, are likely to be the truest and best.

One thing the investor would do well never to forget, viz., that there are always plenty of good securities in the market. No one with money need ever fear that others will get all the solid investments, and, in the apprehension that there will not be enough of that sort to go around, put up with an inferior article. Don't let

him choose what is not altogether satisfactory, under the impression that nothing else as good or better will offer. If he does so, sooner or later he will regret it. Something good always comes to him who waits with money in his hand.

Another thing of a precautionary nature it is well enough for the investor to do, and that is to scatter his purchases. The old adage about putting all the eggs in one basket applies with peculiar force to investments. The tendency with those having but moderate sums to invest, and who need to be the most circumspect, is to make up their minds in favor of a single line of securities and put everything there. Of course, a failure in that quarter is particularly disastrous. The writer

knew a party, some years ago, who decided in favor of municipal obligations, saying that he had satisfied himself that, on the whole, there was nothing else so reliable. Accordingly he put his entire available means into them. But practicing abundant precaution, as he supposed, he divided his money equally among municipal issues of Illinois, Missouri and Kansas, they having the most paper at that time on the market. He thought he was certainly safe as to part. But soon after a wave of repudiation sentiment swept over that part of the county, and every one of his bonds were left in default. It is well enough to scatter in kind as well as in locality.

II. *

"New York has no more entertaining public exhibition than its Stock Exchange. It is one of the show places of the city. The visitor who for the first time looks down from a gallery upon its members in the act of transacting business, is astonished at the apparent confusion he witnesses. He seems to have entered a madhouse. The idea that the market values of our leading securities should be determined by what appears to him to be a howling mob of incurable lunatics, is incomprehensible. But if nothing

*A revision of the original article by John F. Hume.

could be said against the Exchange, which is simply a big bazaar for the sale of bonds and stocks, except its tumultuousness and the seeming lack of dignity among its operators, criticism would have in it but an indifferent target for its shafts. Much graver questions grow out of its existence. Is it a harmless institution? Is it a public blessing? Is it a public curse?

As a great central mart for current securities, it is certainly of vast use. There is no reason why bonds and shares should not be publicly dealt in, and in large quantities, as well as drygoods; as well as corn and cotton and beef and kitchen vegetables. If the Stock Exchange transactions were restricted to the bona-fide buying and selling of bonds and shares, not a word

could be justly said against it. But is it so restricted? Unfortunately, no. A main occupation is wagering on stocks; many traders, while going through the form of buying and selling, simply bet their money upon the rise or fall of the shares they select, as they would upon the shiftings of cards or dice. The Exchange, while doing a large legitimate business, is also an immense speculating establishment.

Its members are divided into two classes—those who execute commissions for others, and those who deal on their own account. It is needless to say that among the latter are the boldest and sharpest speculators of the day. The careers of these men can be sketched in very few words. Through the exercise of superior native wits or the acci-

dent of extraordinary luck, they flourish marvelously for a time; but only, as a rule, to lose their heads and their balance at the last and go down, often through a single disastrous transaction—faster than they went up. There are exceptions. Some flourish to the end, dying generally young—or retiring with estates unbroken. But they are exceptions. Wall Street is a place where few fortunes are made and a great many are lost. The stories of its magnificent triumphs, and of its equally magnificent wrecks read like tales from "The Arabian Nights"; some of them like passages from Dante's "Inferno." Wall Street has had its suicides by the dozen, and will have plenty more. It would not be Wall Street without surprises. And yet there is

a singular sameness in the ordinary trader's experience. He runs an exciting, if at times a rough and stormy, career, snatches or seems to snatch a good many pleasures by the way, makes and breaks with about equal abandon, wrecks his health in a hurry, dies early and suddenly, and then—well, then, when his affairs come to be settled, there are often found large blocks of utterly worthless shares, perhaps a fast horse or two, possibly a yacht or automobile, some costly souvenirs, a few solid assets, possibly heavy debts, or even actual bankruptcy. Poor fellow, everybody has forgotten all about him!

Of the ordinary Wall Street speculator, however clever or however favored for a time, it is perfectly safe to say that, if he

lives long enough and sticks to the business, he will finally come to grief.

But how about Vanderbilt pere, who was more or less of a Wall Street operator all his many days, and a few others not wholly dissimilar if less conspicuous examples?

Ah! that brings us to a view of some of the interior workings of the New York Stock Exchange that the public has little conception of, and which alone will give a correct understanding of its real character. The popular idea is that the Exchange has upon its list, to be dealt in, all, or nearly all, prominent stocks and bonds of acknowledged value, impartially selected and solely because of their merits. There could be no greater misconception. We look there in vain for the shares of hundreds of high

grade securities, both stocks and bonds, representing corporations of the highest standing, and largest business success; railroads, industrials, municipals; corporations whose management is unexceptional, and whose securities are among the choicest investments. But if there is a company with a speculative board of directors, and whose stock has been watered until it will float a respectable navy, its shares are pretty sure to be found on the Exchange's list. Or if there is a company that is absolutely controlled and directed by some particularly active and conspicuous manipulator, its stock may be looked for at the same place. There never is, apparently, much difficulty in a big stock operator getting his issues upon the list. What has been the result?

Simply that the much genuine rubbish has been unloaded upon the public.

Much, but not too much, has been said in condemnation of stock watering; of the production of corporate securities representing little or no cash investment, and which innocent persons are led to purchase in the belief that they are getting full values. But how is it that these speculative issues are so easily marketed, and the producers escape all responsibility for the impositions practiced? Here is where the Exchange's "credit," so to speak, is often used. The Exchange is made the conduit through which the water is diverted to the investor's pockets. When it takes the stock upon its list, the Exchange becomes practically the seller, supplying the machinery

and means of transfer, and it guarantees nothing. Whoever buys at its board is understood to take all risks, no matter how much deception is used. He may be victimized, but he has no redress. The Exchange is simply the medium through which the over-issues have been marketed. It is true, of course, that without the facilities of the Exchange, many of the stock-watering frauds which have become historical never could have been successfully consummated.

Once on the Exchange's list, seldom is a stock so worthless that, with a shrewd manipulator behind it, it cannot be at some time unloaded. The process has been a simple one: First they are "washed" —singular how the idea of water runs

through all stock operations—or prearranged sales of the stock. Outsiders are then told that there is money in it, and they begin to buy. The stock is duly "supported," an indispensable precaution—that is, it is taken at quotation prices when offered by outside owners, and so up and up it is marked, the speculative public taking large blocks in the belief that it is going higher, and with little thought of its actual value, until there comes a time when the original supply has been exhausted, and the shares are no longer supported, and down, down they go. The real value of the stock has little to do with its negotiations. In the light of this explanation, there is no difficulty in comprehending how certain great financial magnates, who are leading

operators in Wall Street, have amassed such colossal fortunes. They have been stock-manufacturers as well as stock dealers. The New York Exchange has been their field of operations, their market-place. Through it they have sold their wares. Had they, like ordinary speculators, confined themselves to other people's goods, it is questionable whether they would have grown exceptionally rich. They might have become poor, as the most of their associates have done. But when with consciences conformable to their opportunities, they had the means of selling water at high figures and in practically unlimited quantities, it is no wonder that their fortunes swelled to fabulous proportions.

There are so few legitimate, lawful, and legally controlled exchanges whereon speculation to any large extent is conducted, that only the leading ones need be named. The New York Stock Exchange is a lawfully constituted association with absolute power to make and enforce its own rules and regulations upon its members. An application for membership in it is scrutinized with the greatest care, and the applicant must prove himself to be a straightforward, honest man before he is accepted. Transactions between members are in most instances verbal, and as they amount to millions of dollars in value daily, confidence in each other is imperative. It is a rare occurrence that a dispute arises, because of the accuracy and care exercised in their transactions

with each other, and, as a rule, the same honesty and methods are extended to their relations with customers who are not members. The legitimate broker is always solicitous for the welfare of his client, from selfish motives, if nothing else. A customer who imagines he has not been fairly and honestly dealt with has only to make complaint to the secretary of the Exchange, stating his grievance, and an immediate investigation is had, followed by redress and the severe discipline of the offending member, should wrong-doing be discovered. So high is the character of Exchange members that no hesitation is felt by the public in entrusting to their custody large sums of money. What is true of the New York Stock Exchange is also true of the Chicago

Board of Trade, upon which is handled the vast products of the great agricultural West. The public should be warned against speculative transactions with any but members of regular exchanges or brokers having permanent connections with them. The novice is oftentimes unable to discriminate between the legitimate and fraudulent, but there is an infallible test, as follows: The rules of the New York Stock Exchange and Board of Trade provide that customers shall receive a memorandum of each transaction made, which shall show the date upon which it was made, the price, and *with whom,* so that if a client has any doubt about it, he can inquire of the party named on the memorandum whether it is true or not, or he can ask the

Secretary of the Exchange to investigate for him. If the Secretary cannot confirm the statements in the memorandum, it can be depended upon that the parties who are alleged to have participated in the transaction are frauds, masquerading as Stock Exchange members, with whom it is worse than folly to entrust business. Hundreds of them exist in New York City alone, who live as barnacles on the Exchange, bringing ill-fame and discredit on an honorable business.

It is a common thing for a few large speculators to combine and form a "pool" to advance some specific stock or group of stocks, the idea being that "in union there is strength." In such combinations some one of the members is usually designated as

the "manager," who gives all orders for purchase and sale. The business is generally given to a number of commission houses who transact a miscellaneous business, in order to keep the transaction under cover as much as possible, because publicity would probably defeat the plan. The stocks subject to the manipulation are made to look weak and strong alternately—weak in order to induce "short" selling, when the "pool" is a free buyer, and strong to induce "outside" buying when the "pool" is a seller. That sort of see-saw manipulation is continued, making the stocks active and attractive to the public, until many thousand shares have been accumulated. In the meantime the most favorable rumors and reports relating to the value of said stocks are care-

fully put forth through market letters, newspapers, and other well-known mediums. This is done for the purpose of inducing the public to buy, on the perfectly correct theory that the public does buy when it is asked to, providing the price is *high* and *advancing,* and especially if it is informed that "strong parties are behind the deal"; when the public "comes in" good and strong, influenced by predictions of a further great advance, it gets the stock. The "strong" parties have "unloaded"—the public is "holding the bag," and wonder what is the matter.

Recently a new form of advertising for "Lambs" has become popular, which requires no capital beyond the sum needed for newspaper bills. The advertisement usual-

ly states that for a small sum, paid "weekly" or "monthly," the subscriber will receive "sure tips" on the market's movements, and that in consideration of one-quarter or one-half of the profits secured, the self-styled "Advisory Brokers" will handle the "deals" for the "Lambs" who don't know how to do it for themselves. These "brokers" have a "sure thing," as they always advise one person to operate for the decline and another for an advance. They are certain to make money in one of the transactions. It is marvellous what a number of otherwise cautious, careful people are victimized yearly in these shady operations.

But the Exchange is nevertheless very useful and necessary in supplying quotable values and furnishing a ready market for

all classes of securities. This important function of the Exchange is well brought out in a paragraph taken from Chas. A. Conant's recently published book, "Wall Street and the Country." Says Mr. Conant:

"One of the most persistent of the hallucinations which prevail among people otherwise apparently lucid and well informed, is the conception that operations on stock and produce exchanges are pure gambling. A moment's reflection, it would seem, might convince such persons that a function which occupies so important a place in the mechanism of modern business must be a useful and necessary part of that mechanism; but reflection seems to have little part in the intellectual equipment of the assailants of organized markets. Only recently I picked

up a book purporting to treat of the subject of ethics, and found this remarkable passage:

'If, instead of betting on something so small as falling dice, one bets on the rise and fall of stocks or on the price which wheat will reach some months hence, and if by such betting one corners the community in an article essential to its welfare, throwing a continent into confusion, the law will pay not the slightest attention. A gambling house for these larger purposes may be built conspicuously in any city, the sign "Stock Exchange" be set over its door, influential men appointed its officers, and the law will protect it and them as it does the churches. How infamous to forbid gambling on a small scale and almost to

encourage it on a large!'

"The writer who undertook to discuss the stock exchange in that manner in a book on ethics, might well have devoted himself less earnestly to the smaller refinements of ethical definition and reverted to the ancient maxim, 'Thou shalt not bear false witness against thy neighbor.' What he says is a hodgepodge of misconceptions. If it be true that betting on the rise and fall of stocks be gambling, as it undoubtedly is, then what follows has no relation to the first suggestion. To one having any knowledge of the subject-matter, the two parts of the first sentence are inconsistent with each other and mutually destructive. Pure betting is done in bucket-shops, is of no use to the community, is destructive to the morals

and pockets of young men, and cannot be too severely censured. But such betting is not carried on in buildings bearing the sign 'Stock Exchange.' It has nothing to do with the legitimate processes of the exchanges. Moreover, one cannot corner the community on any 'article essential to its welfare' by betting in bucket-shops. He may perhaps do it within certain limits by actual transactions on the produce exchanges, because they involve the right to demand delivery. If it were true, however, that no such deliveries were contemplated or could be made, as is usually the case in bucket-shop gambling, it would no more be possible to corner the supply of wheat by betting on its future price than it is possible for a politician to carry the election his

way by laying heavy odds on his candidate. His bets would not make votes, and merely betting on the prices of the commodity would not influence the supply.

"The fact that such confusion of ideas prevails, and that the stock and produce exchanges continue to be looked upon by many good people as a sort of adjunct of Monte Carlo, justifies an occasional re-statement of the essential part which these exchanges play in the mechanism of business. To take the subject up from an elementary standpoint, it is well to say a word regarding the function of stock companies. The discovery was made long before our time that a piece of property or a new enterprise could be given mobility and divisibility by putting the title to its ownership into

transferrable shares. The creation of share companies enables the small capital of individuals to be gathered into large funds necessary to build factories and railways. It divides the risk of an undertaking among many persons, and places the enterprise beyond the accidents of a single human existence by giving it a ficticious body dowered by law with perpetual life."

But in addition to being a balance-wheel to the business of the country, Stock Exchange speculation is often a disturbing factor. It does not even furnish trustworthy news. Nowhere is it so difficult to get reliable intelligence concerning any stock dealt in there, as in Wall Street. The inventiveness of the speculative broker is something marvelous. He can ruin the

country one hour and save it the next. He can blight the crops of a whole section, or he can fill the land with abundance. He can make war or he can make peace, exactly as his monetary interest demands. Rumor-mongering seems to be a part of his trade. He is the chief of liars. Perhaps he is the exception rather than the rule among his fellows—it is to be hoped that he is—but he is a pretty numerous exception, for all that! What is the consequence? Simply that when a financial storm threatens the country, the Exchange is almost certain to be the center of disturbance. No other institution is so sensitive. It exaggerates all the symptoms of trouble. It sends out its alarming reports as the storm-cloud sends out its lightnings. Looking at it as

the barometer of values, the timid naturally conclude that everything is lost, and thus the evil is unduly magnified. Wall Street is as much the natural field for panics as the prairie is for tornadoes.

While the Exchange has been of advantage to the business interests of the country, there are many who have had dealings with it who would not testify in its favor. Of the thousands and thousands who have visited it in person or by proxy, and done a little business with it, not many are ready to rise up and call it blessed, except in a qualified sense. If all were to give their experiences, what would the verdict be? It is to be apprehended that the evidence of a very decided majority would not be flattering to Wall Street's specula-

tive methods; that their testimony would be that they had found it easier to lose money than to make it.

The man who says he "never speculates in stocks, but buys only what he can pay for," is a sufferer as frequently as the man who buys on a "margin." He is generally a "sticker"—one who never "lets go." He buys a security that he believes in, and so strong is his confidence that he will not accept a generous profit if it is offered him, and he is still more tenacious when a loss is growing. His temperament will not admit of the possibility of an eventual loss, but the rule with exceptions is that he will finally take his loss when it has reached its greatest proportions. Securities amounting to hundreds of millions of dollars have

been carried by people who "never speculate," through the depression of the past four years. They have paid interest on money borrowed, paid assessments under re-organization schemes, and still a loss stares them in the face.

III.

The growth of corporate industry in this country during the past six years is in many respects the most remarkable phenomenon of modern times. In every conceivable line of human activity—commercial, financial, manufacturing, transportation, public service—great and extensive development has taken place.

And, consistently enough, this development has proceeded along certain definite lines. The period from 1897 to date might be looked upon as the transition period of the world's—and particularly America's—

industrial forces. It has been a time of business change chiefly—not merely a growth in aggregate volume or output—but a change in method and in scope. In other words, it has been the period of evolution from small to large methods; from limited to unlimited capacity; from competitive to co-operative means of production and distribution.

With this evolution of the industrial organism, numerous changes have taken place in the ideas, wishes and ambitions of business and professional men, and, in fact, of workers of every kind; many customs and habits in commercial and industrial fields have grown obsolete and have been superseded by others; new industries have been created and avenues opened for the produc-

tion of wealth which were not dreamed of a few years back. These changes in the ways of wealth production have reached every walk of life, influenced all classes of people, and must be considered and their influence weighed by every business man. But while these changes in industrial life have been uniformly salutary in some respects, they have not consistently been so in others, and have given rise to many problems, both theoretical and practical, the solution of which is vital to the entire community.

Naturally enough, one class which is most vitally interested in the development of industrial matters and methods is that known as the "investor class." It is the investor whose capital is always at stake, and who

is therefor most deeply involved in the success or failure of the enterprise. His class, too, is one which has naturally evolved from a small portion of the community to a very large one, as, since all undertakings of importance are now conducted on the corporate plan, he has necessarily become a stock or bond-holder, where formerly he was a partner, or, as in many cases, sole owner.

Now, this growth of the investor class, and of the investor's field has made it necessary that the details of all large businesses be given greater publicity than ever before; that the fullest knowledge possible be given the public regarding the ability and personnel of the corporation's management; its methods; its situation; its advantages;

its political relations; its financial and commercial status, income, etc. And here is an instance of where the new industrial regime has created a new industry—that of the financial or corporation statistician. It has made this new vocation necessary and important, just as it has brought into being other business specialists—the underwriters, the men of affairs, and the so-called "generals of industry." Without the men of affairs and industrial experts generally, no large modern enterprise could be successful; and it is equally true that without some economical method of furnishing to the public accurate details and statistics of the many thousand public corporations, the investor, banker or broker would forever be at sea.

Following these logical lines, a natural and practical development of the past few years has been the Bureau of Corporation Statistics, located at 35 Nassau Street, New York City. This Bureau furnishes general and special information regarding the entire corporation field, and covers all lines of industry—Steam and Electric Railroad, Industrial, Gas, Electric Light, Mining, Telephone and Telegraph, Banks, Trust Companies—in fact, all corporate undertakings and enterprises.

A brief history of this Bureau, which has within a remarkably short period become one of the important adjuncts of the financial and investing world, may not be amiss.

Early in 1899, Mr. John Moody, who had been for a number of years operating a

statistical bureau for the well-known banking house of Spencer Trask & Co., conceived the idea of putting in operation a bureau of financial statistics which could be made accessible not merely to a private banking house and its clients, but to the general investing public also. Well knowing the difficulty, through an extended experience, of securing accurate and reliable information on investment securities in general, he felt confident that the field would prove a large and growing one.

And he was not mistaken. In 1900, jointly with several associates, he formed a company with liberal capital and advantageous connections, to develop a Bureau of Corporation Statistics along the lines here indicated.

The Bureau of Corporation Statistics has grown with remarkable rapidity, both as regards its accumulation of information and its general patronage. It now embraces a financial library of thousands of volumes, and current data (increasing daily and systematically revised) regarding American and foreign corporations and investments of every kind and nature.

Each annual subscriber is entitled to the full use of the financial statistical files, and to make special inquires whenever he may desire to do so, either by personal call, mail or telephone. Reports are furnished to annual subscribers and by the single report, regarding all corporations and investment securities. The charges are moderate in all cases. The reports furnished are not

influenced or "inspired" and have no bearing on Wall Street "tips" or "gossip." In brief, it is a bureau of legitimate information for investors, bankers, corporation lawyers, etc. In some respects it can be likened to the mercantile agency, the vital distinction being, however, that it does not supply credit ratings, but furnishes facts and figures regarding corporate enterprises of every nature from the investor's standpoint purely. The office of the Bureau of Corporation Statistics is at 35 Nassau street, New York, where the manager, Charles F. Bridge, is always glad to receive visitors, and show them the Bureau in operation.

A Great Financial Reference Book

From Leslie's Weekly

These are the days of innumerable corporations, and it is frequently essential for the banker, the broker, the corporation lawyer, the investor, and even the merchant and manufacturer, to secure quick knowledge of the real character and standing of one or other of the capitalized combinations. For this purpose, perhaps the most comprehensive reference-book in the world is "Moody's Manual of Corporation Securities," issued annually by the Moody Publishing Company, of New York. This is a volume of nearly 2,500 pages,

which contains statements regarding more than eleven thousand corporations, giving statistics as to the property, the capitalization, the bonded debt, the dividends, the financial condition and earnings, the offices, plants, etc., of each corporation. Detailed and accurate information, indicating the degree of their strength and reliability, is imparted concerning steam railroad, gas and electric light, electric traction, water, telegraph, telephone and cable, industrial, commercial, mining, and oil companies, banks and trust companies in the United States and Canada, all this being of utmost value of those concerned. Each year shows a marked advance on even the excellent previous editions, covering new matters not touched upon in previous issues. The

contents are divided into eight sections, and a complete general alphabetical index and a special index, arranged by cities, render the volume a perfect financial reference publication. No other work of the kind covers so much ground or can be so useful to those who need to consult such a manual. The book is attractively printed and bound. Price in cloth, $10; in full flexible leather, $12.

"A man's learning dies with him; even his virtues fade out of remembrance, but the dividends on the stocks he bequeaths to his children live and keep his memory green."—*Holmes*